

LOS ANGELES COUNTY

Revised Audit Report

CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM

Chapter 1747, Statutes of 1984;
Chapter 1274, Statutes of 1985;
Chapter 1128, Statutes of 1994;
and Chapter 654, Statutes of 1996

July 1, 2006, through June 30, 2010



JOHN CHIANG
California State Controller

June 2014



JOHN CHIANG
California State Controller

June 13, 2014

The Honorable Don Knabe, Chairman
Los Angeles County Board of Supervisors
500 West Temple Street, Room 822
Kenneth Hahn Hall of Administration
Los Angeles, CA 90012

Dear Mr. Knabe:

The State Controller's Office audited the costs claimed by Los Angeles County for the legislatively mandated Consolidated Handicapped and Disabled Students (HDS), HDS II, Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

This revised final report supersedes our previous report dated March 28, 2014. Subsequent to the issuance of our final report, the California Department of Mental Health finalized its Early and Periodic Screening, Diagnosis and Treatment (EPSDT) reimbursements for fiscal year (FY) 2009-10. We recalculated EPSDT revenues for FY 2009-10 and revised Finding 5 to reflect the actual funding percentages based on the final settlement. The revision increased allowable costs by \$195,812, from \$54,031,000 to \$54,226,812.

The county claimed \$77,247,725 for the mandated program. Our audit found that \$54,226,812 is allowable (\$54,246,812 less a \$20,000 penalty for filing late claims) and \$23,020,913 is unallowable. The costs are unallowable primarily because the county overstated mental health services costs by including ineligible and unsupported costs; overstated residential placement costs by including ineligible for-profit vendors and unsupported costs; overstated indirect costs by applying rates to ineligible and unsupported costs; and overstated offsetting reimbursements by applying revenues to ineligible and unsupported costs. The State paid the county \$14,622,716. Allowable costs claimed exceed the amount paid by \$39,604,096.

If you disagree with the audit findings, you may file an Incorrect Reduction Claim (IRC) with the Commission on State Mandates (CSM). The IRC must be filed within three years following the date that we notify you of a claim reduction. You may obtain IRC information at the CSM's website at www.csm.ca.gov/docs/IRCForm.pdf.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by phone at (916) 323-5849.

Sincerely,

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

JVB/sk

cc: John Naimo, Acting Auditor-Controller
Los Angeles County
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Department of Mental Health
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Revised Audit Report

Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles County for the legislatively mandated Consolidated Handicapped And Disabled Students (HDS), HDS II, Seriously Emotionally Disturbed Pupils (SEDP) Program (Chapter 1747, Statutes of 1984; Chapter 1274, Statutes of 1985; Chapter 1128, Statutes of 1994; and Chapter 654, Statutes of 1996) for the period of July 1, 2006, through June 30, 2010.

The county claimed \$77,247,725 for the mandated program. Our audit found that \$54,226,812 is allowable (\$54,246,812 less a \$20,000 penalty for filing late claims) and \$23,020,913 is unallowable. The costs are unallowable primarily because the county overstated mental health services costs by including ineligible and unsupported costs; overstated residential placement costs by including ineligible for-profit vendors and unsupported costs; overstated indirect costs by applying rates to ineligible and unsupported costs; and overstated offsetting reimbursements by applying revenues to ineligible and unsupported costs. The State paid the county \$14,622,716. Allowable costs claimed exceed the amount paid by \$39,604,096.

Background

Handicapped and Disabled Students (HDS) Program

Chapter 26 of the Government Code, commencing with section 7570, and Welfare and Institutions Code section 5651 (added and amended by Chapter 1747, Statutes of 1984, and Chapter 1274, Statutes of 1985) require counties to participate in the mental health assessment for "individuals with exceptional needs," participate in the expanded "Individualized Education Program" (IEP) team, and provide case management services for "individuals with exceptional needs" who are designated as "seriously emotionally disturbed." These requirements impose a new program or higher level of service on counties.

On April 26, 1990, the Commission on State Mandates (CSM) adopted the statement of decision for the HDS Program and determined that this legislation imposed a State mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the HDS Program on August 22, 1991, and last amended them on January 25, 2007.

The parameters and guidelines for the HDS Program state that only 10% of mental health treatment costs are reimbursable. However, on September 30, 2002, Assembly Bill 2781 (Chapter 1167, Statutes of 2002) changed the regulatory criteria by stating that the percentage of treatment costs claimed by counties for fiscal year (FY) 2000-01 and prior fiscal years is not subject to dispute by the SCO. Furthermore, this legislation states that, for claims filed in FY 2001-02 and thereafter, counties are not required to provide any share of these costs or to fund the cost of any part of these services with money received from the Local Revenue Fund established by Welfare and Institutions Code section 17600 et seq. (realignment funds).

Furthermore, Senate Bill 1895 (Chapter 493, Statutes of 2004) states that realignment funds used by counties for the HDS Program “are eligible for reimbursement from the state *for all allowable costs* to fund assessments, psychotherapy, and other mental health services . . .” and that the finding by the Legislature is “declaratory of existing law” (emphasis added).

The CSM amended the parameters and guidelines for the HDS Program on January 26, 2006, and corrected them on July 21, 2006, allowing reimbursement for out-of-home residential placements beginning July 1, 2004.

Handicapped and Disabled Students (HDS II) Program

On May 26, 2005, the CSM adopted a statement of decision for the HDS II Program that incorporates the above legislation and further identified medication support as a reimbursable cost, effective July 1, 2001. The CSM adopted the parameters and guidelines for this new program on December 9, 2005, and last amended them on October 26, 2006.

The parameters and guidelines for the HDS II Program state that “Some costs disallowed by the State Controller’s Office in prior years are now reimbursable beginning July 1, 2001 (e.g., medication monitoring). Rather than claimants re-filing claims for those costs incurred beginning July 1, 2001, the State Controller’s Office will reissue the audit reports.” Consequently, we are allowing medication support costs commencing on July 1, 2001.

Seriously Emotionally Disturbed Pupils (SEDP) Program

Government Code section 7576 (added and amended by Chapter 654, Statutes of 1996) requires new fiscal and programmatic responsibilities for counties to provide mental health services to seriously emotionally disturbed pupils placed in out-of-state residential programs. Counties’ fiscal and programmatic responsibilities include those set forth in Title 2, *California Code of Regulations*, section 60100, which provides that residential placements may be made out of state only when no in-state facility can meet the pupil’s needs.

On May 25, 2000, the CSM adopted the statement of decision for the Seriously Emotionally Disturbed Pupils: Out-of-State Mental Health Services (SEDP) Program and determined that Chapter 654, Statutes of 1996, imposed a state mandate reimbursable under Government Code section 17561. The CSM adopted the parameters and guidelines for the SEDP Program on October 26, 2000. The CSM determined that the following activities are reimbursable:

- Payment for out-of-state residential placements;
- Case management of out-of-state residential placements. Case management includes supervision of mental health treatment and monitoring of psychotropic medications;
- Travel to conduct quarterly face-to-face contacts at the residential facility to monitor level of care, supervision, and the provision of

mental health services as required in the pupil's IEP; and

- Program management, which includes parent notifications as required; payment facilitation; and all other activities necessary to ensure that a county's out-of-state residential placement program meets the requirements of Government Code section 7576.

The CSM consolidated the parameters and guidelines for the HDS, HDS II, and SEDP Programs for costs incurred commencing with FY 2006-07 on October 26, 2006, and last amended them on September 28, 2012. On September 28, 2012, the CSM stated that Chapter 43, Statutes of 2011, "eliminated the mandated programs for counties and transferred responsibility to school districts, effective July 1, 2011. Thus, beginning July 1, 2011, these programs no longer constitute reimbursable state-mandated programs for counties." The consolidated program replaced the prior HDS, HDS II, and SEDP mandated programs. The parameters and guidelines establish the state mandate and define reimbursable criteria. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

Objective, Scope, and Methodology

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Consolidated HDS, HDS II, and SEDP Program for the period of July 1, 2006, through June 30, 2010.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the county's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the county's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Los Angeles County claimed \$77,247,725 for costs of the Consolidated HDS, HDS II, and SEDP Program. Our audit found that \$54,226,812 is allowable (\$54,246,812 less a \$20,000 penalty for filing late claims) and \$23,020,913 is unallowable.

For the fiscal year (FY) 2006-07 claim, the State paid the county \$13,763,796. Our audit found that \$3,724,001 is allowable. The State will offset \$10,039,795 from other mandated program payments due the county. Alternatively, the county may remit this amount to the State.

For the FY 2007-08 claim, the State paid the county \$858,920. Our audit found that \$7,414,815 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,555,895, contingent upon available appropriations.

For the FY 2008-09 claim, the State made no payment to the county. Our audit found that \$6,335,638 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$6,335,638, contingent upon available appropriations.

For the FY 2009-10 claim, the State made no payment to the county. Our audit found that \$36,752,358 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$36,752,358, contingent upon available appropriations.

Views of Responsible Official

We issued the draft report on March 11, 2014. Wendy Watanabe, Auditor-Controller, transmitted the Los Angeles County Department of Mental Health's response on March 24, 2014. In a letter dated March 21, 2014, Marvin Southard, Director, Los Angeles County Department of Mental Health, disagreed with the audit results. We issued the final report on March 28, 2014.

Subsequently, we revised our audit report based on finalized Early and Periodic, Screening, Diagnosis and Treatment revenues by the California Department of Mental Health for FY 2009-10. We recalculated offsetting reimbursements and revised Finding 5. As a result, allowable costs increased by \$195,812, from \$54,051,000 to \$54,246,812 for the audit period. On May 19, 2014, we advised Ed Jewik, Program Specialist V, Auditor-Controller's Office, of the revisions. This revised final report includes the county's March 21, 2014, and March 24, 2014, responses to our March 11, 2014, draft report. The county did not comment on the Finding 5 revision.

Restricted Use

This report is solely for the information and use of Los Angeles County, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by

JEFFREY V. BROWNFIELD, CPA
Chief, Division of Audits

June 13, 2014

Revised Schedule 1— Summary of Program Costs July 1, 2006, through June 30, 2010

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustment	Reference ¹
<u>July 1, 2006, through June 30, 2007</u>				
Direct costs:				
Referral and mental health assessments	\$ 3,315,277	\$ 2,006,513	\$ (1,308,764)	Finding 1
Designation of lead case manager	237,973	66,311	(171,662)	Finding 2
Authorize/issue payments to providers	35,886,282	31,124,171	(4,762,111)	Finding 3
Psychotherapy/other mental health services	36,009,630	29,522,003	(6,487,627)	Finding 1,3
Total direct costs	75,449,162	62,718,998	(12,730,164)	
Indirect costs	2,865,255	2,336,371	(528,884)	Finding 4
Total direct and indirect costs	78,314,417	65,055,369	(13,259,048)	
Less offsetting reimbursements	(64,550,621)	(61,331,368)	3,219,253	Finding 5
Total program costs	<u>\$ 13,763,796</u>	3,724,001	<u>\$ (10,039,795)</u>	
Less amount paid by State ²		(13,763,796)		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$(10,039,795)</u></u>		
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs:				
Referral and mental health assessments	\$ 3,013,437	\$ 2,003,407	\$ (1,010,030)	Finding 1
Designation of lead case manager	246,062	74,878	(171,184)	Finding 2
Authorize/issue payments to providers	40,012,775	32,316,799	(7,695,976)	Finding 3
Psychotherapy/other mental health services	39,025,529	31,935,254	(7,090,275)	Finding 1,3
Total direct costs	82,297,803	66,330,338	(15,967,465)	
Indirect costs	2,473,802	2,068,524	(405,278)	Finding 4
Total direct and indirect costs	84,771,605	68,398,862	(16,372,743)	
Less offsetting reimbursements	(65,077,573)	(60,984,047)	4,093,526	Finding 5
Total program costs	<u>\$ 19,694,032</u>	7,414,815	<u>\$ (12,279,217)</u>	
Less amount paid by State ²		(858,920)		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$ 6,555,895</u></u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs:				
Referral and mental health assessments	\$ 2,776,548	\$ 2,889,594	\$ 113,046	Finding 1
Designation of lead case manager	238,688	95,655	(143,033)	Finding 2
Authorize/issue payments to providers	38,280,035	38,438,069	158,034	Finding 3
Psychotherapy/other mental health services	33,373,722	34,235,594	861,872	Finding 1,3
Total direct costs	74,668,993	75,658,912	989,919	
Indirect costs	2,501,472	2,540,603	39,131	Finding 4
Total direct and indirect costs	77,170,465	78,199,515	1,029,050	
Less offsetting reimbursements	(70,798,126)	(71,853,877)	(1,055,751)	Finding 5
Total claimed amount	6,372,339	6,345,638	(26,701)	
Less late claim penalty ³	—	(10,000)	(10,000)	
Total program costs	<u>\$ 6,372,339</u>	6,335,638	<u>\$ (36,701)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u><u>\$ 6,335,638</u></u>		

Revised Schedule 1 (continued)

July 1, 2009, through June 30, 2010

Direct costs:				
Referral and mental health assessments	\$ 4,873,428	\$ 6,100,219	\$ 1,226,791	Finding 1
Designation of lead case manager	282,403	115,631	(166,772)	Finding 2
Authorize/issue payments to providers	42,481,797	41,703,269	(778,528)	Finding 3
Psychotherapy/other mental health services	32,507,437	33,497,764	990,327	Finding 1,3
Total direct costs	80,145,065	81,416,883	1,271,818	
Indirect costs	2,536,725	2,779,097	242,372	Finding 4
Total direct and indirect costs	82,681,790	84,195,980	1,514,190	
Less offsetting reimbursements	(45,264,232)	(47,433,622)	(2,169,390)	Finding 5
Total claimed amount	37,417,558	36,762,358	(655,200)	
Less late claim penalty ³		(10,000)	(10,000)	
Total program costs	<u>\$ 37,417,558</u>	<u>36,752,358</u>	<u>\$ (665,200)</u>	
Less amount paid by State		—		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 36,752,358</u>		

Summary: July 1, 2006 through June 30, 2010

Direct costs:				
Referral and mental health assessments	\$ 13,978,690	\$ 12,999,733	\$ (978,957)	
Designation of lead case manager	1,005,126	352,475	(652,651)	
Authorize/issue payments to providers	156,660,889	143,582,308	(13,078,581)	
Psychotherapy/other mental health services	140,916,318	129,190,615	(11,725,703)	
Total direct costs	312,561,023	286,125,131	(26,435,892)	
Indirect costs	10,377,254	9,724,595	(652,659)	
Total direct and indirect costs	322,938,277	295,849,726	(27,088,551)	
Less offsetting reimbursements	(245,690,552)	(241,602,914)	4,087,638	
Total claimed amount	77,247,725	54,246,812	(23,000,913)	
Less late claim penalties ³	—	(20,000)	(20,000)	
Total program costs	<u>\$ 77,247,725</u>	<u>54,226,812</u>	<u>\$ (23,020,913)</u>	
Less amount paid by State ²		(14,622,716)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 39,604,096</u>		

¹ See the Revised Findings and Recommendations section.

² County received categorical payment from the California Department of Mental Health from FY 2009-10 budget.

³ The county filed its FY 2008-09 and FY 2009-10 annual reimbursement claims after the due date specified in Government Code section 17560. Pursuant to Government Code section 17568, the State assessed a late filing penalty equal to 10% of allowable costs, not to exceed \$10,000, for each late claim filed.

Revised Findings and Recommendations

FINDING 1— Overstated assessment and treatment costs

The county overstated assessment and treatment costs by \$5,749,573 for the audit period. The costs are claimed in two cost components: assessment costs in Referral and Mental Health Assessments and mental health treatment costs in Psychotherapy/Other Mental Health Services.

Consistent with our prior audit report of county-filed claims for the Handicapped and Disabled Students Program for the period July 1, 2003 through June 30, 2006 (issued June 30, 2010), the county claimed mental health services costs that are not fully based on actual costs to implement the mandate program. For FY 2006-07 and FY 2007-08, the county did not provide support for its claim in a testable format that we could validate. For FY 2008-09 and FY 2009-10, the county provided unit-of-service reports that were based on preliminary information. As a result, these reports did not fully support claimed costs.

We shared our concerns regarding the claims support documentation with county staff. County staff agreed with our concerns and took steps to provide support for its claims. For FY 2006-07 and FY 2007-08, we granted the county's request for additional time to verify claimed units of service with its vendors. However, the county did not complete its verification. For FY 2008-09 and FY 2009-10, we reiterated our concerns that the units of service may not accurately reflect actual units of service provided to eligible clients. In light of these issues, the county created ad hoc system queries and provided the unit-of-service datasets for the audit period to support claimed costs. The county provided similar support in the prior audit to identify mandate-related program costs.

In reviewing these re-run reports, we noted that reported units did not reconcile to claimed units. Further, we noted other issues in the reports, including ineligible case management support services, ineligible and unsupported individual and group rehabilitation services, ineligible clients, and duplicate and voided transactions. We verified, on a sample basis, support for reported transactions. Our testing found services provided to ineligible clients and unsupported services. We also found incidences where the county used inaccurate unit rates to compute costs.

The ineligible and unsupported case management support costs primarily consisted of pre- and post-individualized education plan (IEP) case management support services that are not eligible under the program's parameters and guidelines, and/or related state regulations that form the basis for the state-mandated cost program. The county provided support for a few incidences of costs related to eligible client case management that we found allowable.

The Commission on State Mandates (CSM) issued a statement of decision on May 26, 2011, stating that the portions of rehabilitation services related to socialization are not reimbursable under the parameters and guidelines. The statement of decision was issued in reference to an incorrect reduction claim filed by Santa Clara County for the Handicapped and Disabled Students (HDS) Program. In light of the

CSM statement of decision, the county must separate and exclude the ineligible portions of rehabilitation services. The county did not support the eligible portion of costs.

We recalculated costs based on actual, supportable units of service provided to eligible clients using the appropriate unit rates that represented the actual costs to the county. We excluded the costs related to ineligible or unsupported transactions.

The following table summarizes the adjustments to assessment and treatment costs claimed:

<u>FY 2006-07</u>			
Referral and mental health assessments	\$ 3,315,277	\$ 2,006,513	\$ (1,308,764)
Psychotherapy/other mental health services	25,436,573	21,311,115	(4,125,458)
Total	<u>\$ 28,751,850</u>	<u>\$ 23,317,628</u>	<u>\$ (5,434,222)</u>
<u>FY 2007-08</u>			
Referral and mental health assessments	\$ 3,013,437	\$ 2,003,407	\$ (1,010,030)
Psychotherapy/other mental health services	25,289,819	22,503,910	(2,785,909)
Total	<u>\$ 28,303,256</u>	<u>\$ 24,507,317</u>	<u>\$ (3,795,939)</u>
<u>FY 2008-09</u>			
Referral and mental health assessments	\$ 2,776,548	\$ 2,889,594	\$ 113,046
Psychotherapy/other mental health services	21,489,851	22,261,754	771,903
Total	<u>\$ 24,266,399</u>	<u>\$ 25,151,348</u>	<u>\$ 884,949</u>
<u>FY 2009-10</u>			
Referral and mental health assessments	\$ 4,873,428	\$ 6,100,219	\$ 1,226,791
Psychotherapy/other mental health services	18,411,769	19,780,617	1,368,848
Total	<u>\$ 23,285,197</u>	<u>\$ 25,880,836</u>	<u>\$ 2,595,639</u>
<u>Summary</u>			
Referral and mental health assessments	\$ 13,978,690	\$ 12,999,733	\$ (978,957)
Psychotherapy/other mental health services	90,628,012	85,857,396	(4,770,616)
Total	<u>\$ 104,606,702</u>	<u>\$ 98,857,129</u>	<u>\$ (5,749,573)</u>

The following table summarizes the calculation of allowable costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
County re-run costs	\$ 27,533,869	\$ 28,467,858	\$ 25,644,148	\$ 26,598,513	\$ 108,244,388
Incorrect unit rates	1,665,481	437,256	(442,898)	(701,956)	957,883
Ineligible clients	(3,509,711)	(2,889,713)	(49,498)	(14,547)	(6,463,469)
Ineligible and unsupported rehabilitation costs	(1,033,579)	(423,444)	—	(904)	(1,457,927)
Ineligible case management support	(1,335,849)	(1,081,998)	—	—	(2,417,847)
Duplicate and voided transactions	(1,539)	(395)	(170)	(270)	(2,374)
Unsupported transactions	(1,044)	(2,247)	(234)	—	(3,525)
Total amount allowed	<u>\$ 23,317,628</u>	<u>\$ 24,507,317</u>	<u>\$ 25,151,348</u>	<u>\$ 25,880,836</u>	<u>\$ 98,857,129</u>

The program's parameters and guidelines provide reimbursement for mental health services when required by the pupil's IEP. These services include assessments, collateral, case management, individual and group psychotherapy, medication monitoring, intensive day treatment, and day rehabilitation services. The parameters and guidelines further specify that when providing mental health treatment services, the activities of socialization and vocational services are not reimbursable.

Title 2, *California Code of Regulations* (CCR), section 60020, subdivision (i), which forms the basis for the services in the State-mandated cost program, does not include case management support for pre- and post-IEP services. As such, these costs are not included in the program's parameters and guidelines. Furthermore, Government Code, section 7576, subdivision (h), states that the county mental health agency does not have fiscal or legal responsibility for costs it incurs prior to approval of an IEP, except for costs associated with conducting a mental health assessment.

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities that are supported by source documents that show the validity of such costs.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

We agree with the recommendation, however, we disagree with the findings.

The County will dispute the disallowances for ineligible and unsupported mental health services costs and case management support costs. It is always the County's intent to claim eligible and supported costs that are in compliance with the Parameters and Guidelines for this mandate.

The State Controller's Office (SCO) conducted the audit as if Los Angeles County Department of Mental Health (DMH) used an actual cost method for calculating the claims. DMH used the cost report method for calculating the claims, a method approved under the Parameters and Guidelines and used by the State Department of Mental Health to reconcile and pay not only SB90 claims, but Federal Financial Participation; State EPSDT, and other state funding sources. As the cost report method relies on the providers' internal records, reliance on the "data runs," which the SCO insisted on having, is an inaccurate method for identifying costs and thus is an illegitimate auditing methodology under the parameters and guidelines.

SCO's Response

The finding and recommendation remain unchanged.

As noted in the finding for FY 2006-07 and FY 2007-08, the county did not provide support for costs it claimed in a testable format that we could validate. The county did not identify the program participants and did not identify when the participants received the services. During the current audit, the county ran ad hoc queries to identify mental health services provided to program participants. The county re-ran the ad hoc queries for FY 2008-09 and FY 2009-10 because the initial queries provided were based on preliminary information.

The county's claims were computed using the cost report method. The cost report method does not specifically identify the county and vendor staff performing the mental health services, but instead, utilizes the units of mental health services provided to program participants and the applicable unit rates to calculate the costs. In contrast, under the direct cost method, the county would be required to identify personnel and their time providing services to program participants. The county did not provide support for its claims using the direct cost method.

The program's parameters and guidelines and SCO claiming instructions state that the county may only claim actual costs to implement the mandated cost program. The cost report method is an acceptable methodology for claiming actual costs. We recalculated allowable costs that the county supported using the cost report method and subtracted that amount from claimed costs to arrive at the audit adjustments.

**FINDING 2—
Unsupported
administrative costs**

The county claimed unsupported administrative staff salaries and benefits totaling \$652,651 for the audit period. These costs are claimed in the Designation of Lead Case Manager cost component.

The county did not identify the mandate-related activity for claimed staff salaries and benefits at the county's Department of Mental Health (LACDMH) and Department of Children and Family Services (DCFS). The DCFS did not provide any supporting documentation for claimed costs. During the audit, the LACDMH prepared and provided duty statements that listed activities performed for the positions claimed. However, the duty statements reflected general administrative duties that are not mandate-related. Further, LACDMH staff did not provide documentation supporting actual time spent performing the duties listed in the duty statements. As such, the county did not provide evidence that supported actual time spent performing reimbursable, mandate-related activities.

The following table summarizes the unsupported costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Unsupported costs:					
LACDMH administrative costs	\$ (106,192)	\$ (141,243)	\$ (143,033)	\$ (166,772)	\$ (557,240)
DCFS administrative costs	(65,470)	(29,941)	—	—	(95,411)
Audit adjustments	<u>\$ (171,662)</u>	<u>\$ (171,184)</u>	<u>\$ (143,033)</u>	<u>\$ (166,772)</u>	<u>\$ (652,651)</u>

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities that are supported by source documents that show the validity of such costs.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

We agree with the recommendation, however, we disagree with the findings.

The County feels that the administrative staff provided the program administrative activities that supported the claimed cost. DMH claimed the salaries and employee benefits for those administrative staffs who were dedicated 100% to the AB 3632 program.

SCO's Response

The finding and recommendation remain unchanged.

The county did not provide documentation supporting the mandate-related activities performed by staff or the time spent by staff performing the activities.

FINDING 3— Ineligible vendor costs

The county claimed unallowable residential placement costs totaling \$20,033,668 for the audit period. These costs include both board-and-care and mental health treatment costs. The board-and-care costs are included in the Authorize/Issue Payments to Providers cost component, while the mental health treatment costs are included in the Psychotherapy/Other Mental Health Services cost component.

The county claimed ineligible vendor payments totaling \$19,915,861, which included board-and-care costs of \$12,959,239 and mental health treatment costs of \$6,956,622. The ineligible vendor payments were for the out-of-state residential placement of seriously emotionally disturbed pupils in facilities that are owned and operated for profit. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement.

In our testing of payments, we found incidences when the county computed costs using incorrect rates, incorrect start and end placement dates, and other minor calculation errors. We recalculated costs using correct rates and placement dates, and found in an overstatement of costs totaling \$117,807.

A vendor that previously was a for-profit organization received formal designation as a nonprofit during FY 2008-09. We allowed the costs from the date that the vendor became a nonprofit.

The following table summarizes the overstated costs:

	Fiscal Year				
	2006-07	2007-08	2008-09	2009-10	Total
Ineligible placements:					
Treatment costs	\$ (2,362,169)	\$ (4,304,366)	\$ 89,969	\$ (378,521)	\$ (6,955,087)
Board-and-care costs	(4,762,111)	(7,695,976)	158,034	(778,528)	(13,078,581)
Audit adjustments	<u>\$ (7,124,280)</u>	<u>\$ (12,000,342)</u>	<u>\$ 248,003</u>	<u>\$ (1,157,049)</u>	<u>\$ (20,033,668)</u>

The program's parameters and guidelines specify that the mandate is to reimburse counties for payments to service vendors providing placement of seriously emotionally disturbed pupils in out-of-home residential facilities as specified in Government Code section 7581 and Title 2, *California Code of Regulations* (CCR), section 60200.

Title 2, CCR section 60100, subdivision (h), specifies that out-of-state residential placements shall be made in residential programs that meet the requirements of Welfare and Institutions Code section 11460, subdivision (c)(2) through (3). Subdivision (c)(3) states that reimbursement shall be paid only to a group home organized and operated on a nonprofit basis.

The parameters and guidelines specify that the State will reimburse only actual increased costs incurred to implement the mandated activities that are supported by source documents that show the validity of such costs.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

We agree with the recommendation, however, we disagree with the findings.

In the original test claim decision adopted by the Commission on May 25, 2000, regarding out of state residential placement, the Commission found that counties had a positive obligation to provide mental health services regardless of the location of the student. Further, even if the regulation is valid, such regulation would apply only to the board and care payment, not payments for mental health services.

SCO's Response

The finding and recommendation remain unchanged.

As noted in the finding, the county claimed ineligible vendor payments for the out-of-state residential placement of seriously emotionally disturbed pupils in facilities that are owned and operated for profit. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement. Vendor payments include costs for board-and-care and related mental health services.

**FINDING 4—
Overstated indirect
costs**

The county overstated indirect costs by \$652,659 for the audit period.

The county miscalculated indirect costs for the audit period because it applied its rates to preliminary, unsupported, and ineligible direct costs. As a result, the county overstated costs for FY 2006-07 and FY 2007-08, and understated costs for FY 2008-09 and FY 2009-10.

In all fiscal years, the county used indirect cost rates to recover costs related to administering mental health service programs at county-run facilities, in-state vendors, and out-of-state vendors. We found the allocations to be reasonable and consistent with the allocations in the county's cost report submitted to the California Department of Mental Health (CDMH). However, as described in Findings 1, 2, and 3, the county claimed direct costs that were not fully based on actual costs to implement the mandate program.

We applied the county's indirect cost rates to eligible direct costs of services provided at county-run facilities, in-state vendors, and out-of-state vendors.

The following table summarizes the adjustments to indirect costs:

	Fiscal Year				Total
	2006-07	2007-08	2008-09	2009-10	
Direct costs of county-run facilities	\$ 9,338,772	\$ 8,736,077	\$ 8,332,039	\$ 9,921,390	
Indirect cost rates	12.1336%	11.3438%	13.2962%	12.1653%	
Allowable indirect costs	\$ 1,133,129	\$ 991,003	\$ 1,107,844	\$ 1,206,967	\$ 4,438,943
Direct costs of in-state vendors	\$ 14,045,167	\$ 15,846,118	\$ 16,914,964	\$ 16,075,077	
Indirect cost rates	6.3137%	5.0856%	5.9607%	6.3274%	
Allowable indirect costs	\$ 886,770	\$ 805,870	\$ 1,008,250	\$ 1,017,134	\$ 3,718,024
Direct costs of out-of-state vendors	\$ 8,210,888	\$ 9,431,344	\$ 11,973,840	\$ 13,717,147	
Indirect cost rates	3.8543%	2.8803%	3.5453%	4.046%	
Allowable indirect costs	\$ 316,472	\$ 271,651	\$ 424,509	\$ 554,996	\$ 1,567,628
Total allowable indirect costs	\$ 2,336,371	\$ 2,068,524	\$ 2,540,603	\$ 2,779,097	\$ 9,724,595
Claimed indirect costs	2,865,255	2,473,802	2,501,472	2,536,725	10,377,254
Audit adjustments	\$ (528,884)	\$ (405,278)	\$ 39,131	\$ 242,372	\$ (652,659)

The parameters and guidelines specify that indirect costs incurred in the performance of the mandated activities and adequately documented are reimbursable.

The parameters and guidelines further specify that indirect costs may be claimed to the extent that they have not already been reimbursed by the CDMH from categorical funding sources.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

We agree with the recommendation, however, we disagree with the findings.

The State auditor's discovery of ineligible units of service resulted in the ineligibility of the indirect costs. As the adjustments are based on Findings 1 through 3, therefore to the extent that those findings are incorrect, these would need to be adjusted also.

SCO's Response

The finding and recommendation remain unchanged.

The overstated indirect costs do result from unallowable costs identified in Findings 1 through 3.

FINDING 5— Overstated offsetting reimbursements

The county overstated offsetting reimbursements by \$4,087,638 for the audit period.

The overstatement results from applying the Short Doyle/Medi-Cal (SD/MC), and Healthy Families, and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentages to ineligible and unsupported direct and indirect costs, and using preliminary EPSDT funding percentages to calculate EPSDT reimbursements. The county also applied the California Department of Social Services (CDSS) 40% share reimbursement of board-and-care costs to ineligible direct costs.

For FY 2006-07, FY 2007-08, and FY 2009-10, the county also included prior period adjustments that related to changes in SD/MC and EPSDT offsets identified after the settlement process. However, as noted in Finding 1, these adjustments are primarily based on ineligible and unsupported costs.

The county identified and applied the appropriate funding percentages for SD/MC and for the Healthy Families programs. For residential placement costs, the county appropriately applied the CDSS 40% share of board-and-care costs, and Local Revenue Funds (realignment funds)

used for the county's 60% share of board-and-care costs. The county properly identified and reduced its claims by reimbursements received under the Individuals with Disabilities Education Act (IDEA) and CDMH categorical funds.

We recalculated allowable offsetting reimbursements for all relevant funding sources and applied the appropriate rates for SD/MC, Healthy Families and EPSDT. We did not allow offsetting reimbursements for ineligible or unsupported costs, and excluded the prior period adjustments.

The following table summarizes the overstated offsetting reimbursements:

	Amount Claimed	Amount Audited	Audit Adjustment
<u>FY 2006-07</u>			
IDEA	\$ (13,832,574)	\$ (13,832,574)	\$ —
CDMH categorical	(16,086,217)	(16,086,217)	—
SD/MC	(7,158,946)	(5,475,068)	1,683,878
EPSDT	(5,610,900)	(4,310,485)	1,300,415
Healthy families	(537,988)	(420,604)	117,384
CDSS (40% share)	(14,380,701)	(12,449,668)	1,931,033
Realignment	(8,717,000)	(8,717,000)	—
Prior period adjustments	1,773,705	(39,752)	(1,813,457)
Total	<u>\$ (64,550,621)</u>	<u>\$ (61,331,368)</u>	<u>\$ 3,219,253</u>
<u>FY 2007-08</u>			
IDEA	\$ (13,832,574)	\$ (13,832,574)	\$ —
CDMH categorical	(17,531,923)	(17,531,923)	—
SD/MC	(6,387,741)	(5,670,280)	717,461
EPSDT	(5,127,356)	(4,500,827)	626,529
Healthy families	(546,132)	(473,723)	72,409
CDSS (40% share)	(16,017,086)	(12,926,720)	3,090,366
Realignment	(6,048,000)	(6,048,000)	—
Prior period adjustments	413,239	—	(413,239)
Total	<u>\$ (65,077,573)</u>	<u>\$ (60,984,047)</u>	<u>\$ 4,093,526</u>
<u>FY 2008-09</u>			
IDEA	\$ (13,832,574)	\$ (13,832,574)	\$ —
CDMH categorical	(26,614,944)	(26,614,944)	—
SD/MC	(6,759,136)	(7,322,968)	(563,832)
EPSDT	(3,674,348)	(4,105,567)	(431,219)
Healthy families	(502,110)	(499,596)	2,514
CDSS (40% share)	(15,312,014)	(15,375,228)	(63,214)
Realignment	(4,103,000)	(4,103,000)	—
Total	<u>\$ (70,798,126)</u>	<u>\$ (71,853,877)</u>	<u>\$ (1,055,751)</u>

	Amount Claimed	Amount Audited	Audit Adjustment
<u>FY 2009-10</u>			
IDEA	\$ (13,832,574)	\$ (13,832,574)	\$ —
CDMH Categorical	(2,437,804)	(2,437,804)	—
SD/MC	(5,447,326)	(6,525,578)	(1,078,252)
EPSDT	(2,702,199)	(3,293,906)	(591,707)
Healthy families	(245,276)	(268,879)	(23,603)
CDSS (40% share)	(16,992,719)	(16,681,308)	311,411
Realignment	(4,393,573)	(4,393,573)	—
Prior period adjustments	787,239	—	(787,239)
Total	<u>\$ (45,264,232)</u>	<u>\$ (47,433,622)</u>	<u>\$ (2,169,390)</u>
<u>Summary</u>			
IDEA	\$ (55,330,296)	\$ (55,330,296)	\$ —
CDMH categorical	(62,670,888)	(62,670,888)	—
SD/MC	(25,753,149)	(24,993,894)	759,255
EPSDT	(17,114,803)	(16,210,785)	904,018
Healthy Families	(1,831,506)	(1,662,802)	168,704
CDSS (40% share)	(62,702,520)	(57,432,924)	5,269,596
Realignment	(23,261,573)	(23,261,573)	—
Prior period adjustments	2,974,183	(39,752)	(3,013,935)
Total	<u>\$ (245,690,552)</u>	<u>\$ (241,602,914)</u>	<u>\$ 4,087,638</u>

The program's parameters and guidelines specify that any direct payments (categorical funds, SD/MC, EPSDT, IDEA, and other reimbursements) received from the State that are allocated specifically to the program, and/or any other reimbursements received as a result of the mandate, must be deducted from the claim.

Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's Response

We agree with the recommendation, however, we disagree with the findings.

To show diligence, it has been the County's practice to adjust the difference between the claimed and State settlement amounts in the subsequent year claims to reflect the final Medi-Cal and EPSDT revenues per settlement.

As the adjustments are based on Findings 1 through 3, therefore to the extent that those findings are incorrect, these would need to be adjusted also.

SCO's Response

Subsequent to the issuance of our final report on March 28, 2014, the DMH issued its EPSDT settlement for FY 2009-10. We recalculated offsetting reimbursements and revised Finding 5 to reflect the actual funding percentage. As a result, offsetting reimbursements decreased by \$195,812, from \$241,798,726 to \$241,602,914.

The recommendation and remaining adjustment are unchanged.

The remaining adjustment relates primarily to the county applying funding percentages to ineligible and unsupported costs identified in Findings 1 through 3 based on ad hoc queries the county ran to support costs claimed.

**Attachment—
County's Response to
Draft Audit Report**



WENDY L. WATANABE
AUDITOR-CONTROLLER

**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-3873
PHONE: (213) 974-8301 FAX: (213) 626-5427

March 24, 2014

Mr. Jim L. Spano, Chief
Mandated Cost Audits Bureau
State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250

Dear Mr. Spano:

**LOS ANGELES COUNTY'S RESPONSE
TO THE STATE CONTROLLER'S DRAFT AUDIT REPORT
CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS), HDSII,
SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
JULY 1, 2006 THROUGH JUNE 30, 2010**

The County of Los Angeles has reviewed the State's draft audit report dated March 11, 2014 for the HDS, HDSII, and SEDP programs, for the period July 1, 2006 through June 30, 2010. The draft audit report concluded that, of the \$77,247,725 claimed under HDS, HDSII, and SEDP, \$54,031,000 is allowable. The remaining \$23,216,725 is not allowable pursuant to the Parameters and Guidelines adopted by the Commission on State Mandates.

Attached is the Department of Mental Health's response to your draft audit report.

If you have any questions, please contact Ed Jewik at (213) 974-8564 or via email at ejewik@auditor.lacounty.gov.

Very truly yours,

John Naimo For

Wendy L. Watanabe
Auditor-Controller

WLW:JN:CY:EJ:hy

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Attachment

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LOS ANGELES COUNTY DEPARTMENT OF MENTAL HEALTH
650 S. VERMONT AVE., LOS ANGELES, CA 90020 HTTP://DMH.LACOUNTY.GOV



MARVIN J. SOUTHARD, D.S.W.
Director

ROBIN KAY, Ph.D.
Chief Deputy Director

RODERICK SHANER, M.D.
Medical Director

March 21, 2014

Ms. Wendy L. Watanabe
Auditor-Controller
Kenneth Hahn Hall of Administration
500 W. Temple Street, Room 525
Los Angeles, CA 90012-3873

Dear Ms. Watanabe:

**DEPARTMENT OF MENTAL HEALTH'S (DMH) RESPONSE TO
STATE CONTROLLER'S (SCO) DRAFT AUDIT REPORT
JULY 1, 2006 THROUGH JUNE 30, 2010**

Attached is DMH's response to the recommendations contained in the SCO's draft audit report for the Consolidated Handicapped and Disabled Students (HDS), HDS II, and Seriously Emotionally Disturbed Pupils (SEDP) Program. We concur with the recommendations; however, we disagree with the findings. DMH will file an Incorrect Reduction Claim to appeal these audit findings.

If you have any questions or require additional information, please call me at (213) 738-4601, or your staff may contact Kimberly Nall at (213) 738-4625.

Sincerely,

Marvin J. Southard, D.S.W.
Director

MJS:KN

Attachment

c: Robin Kay, Ph.D.
Margo Morales
Bryan Mershon, Ph.D.

**RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
FOR THE CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS),
HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
CHAPTER 1747, STATUTES OF 1984,
CHAPTER 1274, STATUTES OF 1985,
CHAPTER 1128, STATUTES OF 1994, AND
CHAPTER 654, STATUTES OF 1996
JULY 1, 2006, THROUGH JUNE 30, 2010**

Finding 1 – Overstated assessment and treatment costs

The County overstated assessment and treatment costs by \$5,749,573 for the audit period.

The County claimed mental health services costs that are not fully based on actual costs to implement the mandate program. For Fiscal Year (FY) 2006-07 and FY 2007-08, the County did not have support for its claim in a testable format that could be verified. For FY 2008-09 and FY 2009-10, the County provided unit of service reports that were based on preliminary information. For FY 2006-07 and FY 2007-08, the County requested additional time to verify claimed units with its vendors. For FY 2008-09 and FY 2009-10, the County reran the unit of service reports to support its claims.

The County also claimed ineligible case management support costs. The services consist of pre and post IEP case management support services that are not eligible in accordance with the program's parameters and guidelines, and underlying State regulations that form the basis of the state mandated cost program. The County staff asserted that in a few limit circumstances, the services consisted of providing case management to eligible clients. However, the County could not provide support for a few incidences of costs related to this activity description.

State's Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's response

We agree with the recommendation, however, we disagree with the findings.

The County will dispute the disallowances for ineligible and unsupported mental health services costs and case management support costs. It is always the County's intent to claim eligible and supported costs that are in compliance with the Parameters and Guidelines for this mandate.

**RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
FOR THE CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS),
HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
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CHAPTER 1274, STATUTES OF 1985,
CHAPTER 1128, STATUTES OF 1994, AND
CHAPTER 654, STATUTES OF 1996
JULY 1, 2006, THROUGH JUNE 30, 2010**

The State Controller's Office (SCO) conducted the audit as if Los Angeles County Department of Mental Health (DMH) used an actual cost method for calculating the claims. DMH used the cost report method for calculating the claims, a method approved under the Parameters and Guidelines and used by the State Department of Mental Health to reconcile and pay not only SB90 claims, but Federal Financial Participation; State EPSDT, and other state funding sources. As the cost report method relies on the providers' internal records, reliance on the "data runs," which the SCO insisted on having, is an inaccurate method for identifying costs and thus is an illegitimate auditing methodology under the parameters and guidelines.

Finding 2 – Unsupported Cost

The County claimed unsupported administrative staff salaries and benefits totaling \$652,651 for the audit period.

The County could not identify the mandate-related activity related to claimed staff salaries and benefits. During the course of the audit, the County Department of Mental Health prepared and provided duty statements that listed activities performed by the positions claimed. However, the duty statements reflected general administrative duties that are not mandate-related. Further, County staff could not provide documentation supporting actual time spent performing the duties listed in the duty statements.

State's Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's response

We agree with the recommendation, however, we disagree with the findings.

The County feels that the administrative staff provided the program administrative activities that supported the claimed cost. DMH claimed the salaries and employee benefits for those administrative staffs who were dedicated 100% to the AB 3632 program.

**RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
FOR THE CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS),
HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
CHAPTER 1747, STATUTES OF 1984,
CHAPTER 1274, STATUTES OF 1985,
CHAPTER 1128, STATUTES OF 1994, AND
CHAPTER 654, STATUTES OF 1996
JULY 1, 2006, THROUGH JUNE 30, 2010**

Finding 3 – Ineligible Vendor Costs

The County claimed unallowable residential placement costs totaling \$20,033,668 for the audit period.

The County claimed ineligible vendor payments totaling \$19,915,861, which included board-and-care costs of \$12,959,239 and mental health treatment costs of \$6,956,622. The ineligible vendor payments made were for the out-of-state residential placement of seriously emotionally disturbed pupils in facilities that are owned and operated for profit. Only placements in facilities that are owned and operated on a nonprofit basis are eligible for reimbursement.

In the course of testing payments, incidences were noted when the County computed costs using incorrect rates, incorrect start and end placement dates, and other minor calculation errors, resulting an overstatement of costs totaling \$117,807.

State's Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's response

We agree with the recommendation, however, we disagree with the findings.

In the original test claim decision adopted by the Commission on May 25, 2000, regarding out of state residential placement, the Commission found that counties had a positive obligation to provide mental health services regardless of the location of the student. Further, even if the regulation is valid, such regulation would apply only to the board and care payment, not payments for mental health services.

Finding 4 - Overstated Indirect Costs

The County overstated indirect costs by \$652,659 for the audit period.

**RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
FOR THE CONSOLIDATED HANDICAPPED AND DISABLED STUDENTS (HDS),
HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
CHAPTER 1747, STATUTES OF 1984,
CHAPTER 1274, STATUTES OF 1985,
CHAPTER 1128, STATUTES OF 1994, AND
CHAPTER 654, STATUTES OF 1996
JULY 1, 2006, THROUGH JUNE 30, 2010**

The County miscalculated indirect costs for the audit period because it applied its rates to preliminary, unsupported, and ineligible direct costs.

In all fiscal years, the County used indirect cost rates to recover costs related to administering mental health service programs at County-run facilities, in-state vendors, and out-of-state vendors. We found the allocations to be reasonable and consistent with the allocations in the County's cost report submitted to the California Department of Mental Health (CDMH).

State's Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's response

We agree with the recommendation, however, we disagree with the findings.

The State auditor's discovery of ineligible units of service resulted in the ineligibility of the indirect costs. As the adjustments are based on Findings 1 through 3, therefore to the extent that those findings are incorrect, these would need to be adjusted also.

Finding 5 – Overstated offsetting revenues

The County overstated offsetting revenues by \$3,891,826 for the audit period.

The overstatement results from applying the Short Doyle/Medi-Cal (SD/MC), Healthy Families, and Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) funding percentage to ineligible and unsupported direct and indirect costs, and using preliminary EPSDT funding percentages to calculate EPSDT reimbursements.

The CDMH has not finalized the EPSDT settlement for FY 2009-10. The EPSDT revenues for FY 2009-10 were recalculated using a provisional rate that was based on the final EPSDT settlement for FY 2008-09. Once the CDMH completes the finalization

**RESPONSE TO
STATE CONTROLLER'S DRAFT AUDIT REPORT
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HDS II, SERIOUSLY EMOTIONALLY DISTURBED PUPILS (SEDP) PROGRAM
CHAPTER 1747, STATUTES OF 1984,
CHAPTER 1274, STATUTES OF 1985,
CHAPTER 1128, STATUTES OF 1994, AND
CHAPTER 654, STATUTES OF 1996
JULY 1, 2006, THROUGH JUNE 30, 2010**

process for FY 2009-10, SCO will recalculate the offsetting revenues and revise the final audit report, as appropriate.

State's Recommendation

No recommendation is applicable for this report, as the consolidated program no longer is mandated.

County's response

We agree with the recommendation, however, we disagree with the findings.

To show diligence, it has been the County's practice to adjust the difference between the claimed and State settlement amounts in the subsequent year claims to reflect the final Medi-Cal and EPSDT revenues per settlement.

As the adjustments are based on Findings 1 through 3, therefore to the extent that those findings are incorrect, these would need to be adjusted also.

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874**

<http://www.sco.ca.gov>